

Spelthorne Borough Council Property Fund Half Year Commercial Property Portfolio Review

Report to 30th September 2024



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3 Roundwood Avenue, Stockley Park



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1 Introduction

This report provides a half year progress review on the commercial property assets owned by Spelthorne Borough Council. It forms part of the Asset Management Strategy for the commercial properties. The objective of the review is to report progress against the targets set out in the Business Plans and the Asset Investment Strategy. The report covers the period 1 April 2024 to 30 September 2024.

2 Property Market Review

South East Offices

The South East office market remains challenging for landlords. Letting activity has been slow and driven by companies downsizing. Whilst the take-up for the first half of 2024 was higher than the same period in 2023 it was starting from a low base. The average transaction size was 17,500 sq.ft. ¹which has increased since 2021 and a few larger enquiries have been circulated over recent months. Whilst demand has seen a modest uptick across the South East region the vacancy rate still rose over the first half of 2024. According to Colliers, the South East vacancy rate was 13.1% at the end of Q2 2024. Part of this was due to pre-letting activity which will have no impact on existing availability. The trend for high quality new or refurbished space continues as evidenced by three pre-letting of 112,355 sq.ft at One Station Hill in Reading.

The investment market remained muted with few office transactions taking place. During the first half of 2024 £655 million was transacted which was lower than the same period in 2023². Residential developers were the most active investors of office property whilst UK property funds and property companies were disposing of assets. The continued lack of appetite for office property and a slow occupational market is expected to result in a further fall in capital values for 2024. There is some consensus that the bottom of the property cycle has been reached with stronger economic forecasts and total return figures for 2025 onwards.

Retail Market

Despite a summer of sport, which was hoped would bolster retail sales, sales recorded a slow start to early summer but rapidly gained momentum throughout August and September³. UK spending increased at its fastest pace in 6 months in September increasing by an annual rate of 2% up from 1% in August⁴. Supermarkets did particularly well in July/early August, most likely due to the Euros followed by Wimbledon and the Olympics and this led into significant back to school promotions

¹ Colliers South East Offices Snapshot July 2024

² Colliers South East Offices Snapshot July 2024

³ Knight Frank 'Retail is Coming Home' 19/7/2024

⁴ FT 'UK Retail sales boosted by warm weather in August' 2 September 2024

2 Property Market Review - continued

in late August/Sep which bolstered clothing and shoe sales. Other strong sectors have included music and cosmetics. It is hoped that this optimism and this upwards trajectory in retail sales continues through the golden quarter (Sept-Dec, Halloween, Black Friday, Christmas) with inflation easing and the expectation of lower interest rates.

In the shopping centre sector, void rates remain stable at 17.4% across the UK⁵. It is felt that there is increased retailer stability despite the collapse of Lloyds Pharmacy and Ted Baker in the last 6 months and there are some small signs of rental growth in prime markets. A recent RICS survey suggested that 35% of respondents believed that the retail market had now bottomed out and this has been reflected in the investment market with £1.1 billion of shopping centre transacting in Q1 24⁵. This has included Land Securities purchasing a further 17.5% of Bluewater and Norges Bank acquiring a 50% stake in Meadowhall, whilst smaller private equity groups are circling secondary distressed assets and Mike Ashleys Fraser group remain key purchasers of quality subprime assets including Exeter, Maidstone and Gloucester.

The Elmsleigh Centre continues to trade well and footfall remains stable at 2023 levels with spend per head per visit increasing slightly year on year. We understand that both Primark and Matalan remain in the upper quartile of their regions performance and the programme of ongoing lease regears/renewals with Muffin Break, Card Factory, H Samuel and River Island all suggesting that Staines remains an important market and catchment, with the recent and proposed unit refreshes showing retailers ongoing commitment to the town.

⁵ Cushman & Wakefield 'Marketbeat' Retail & Leisure Q2 2024

3 Asset Management Activity

A number of lettings, lease renewals and rent reviews have been completed over the last six months as detailed in the tables below.

The key highlights include:

- Letting the part ground floor of Elmbrook House. Three lettings have been secured since December 2023 and the building is now 86% let.
- Placing part ground floor, 3 Roundwood Avenue, Stockley Park (9,560 sq.ft) under offer following the comprehensive refurbishment which completed in December 2023.
- Placing the 13th floor at Thames Tower, Reading (13,926 sq.ft) under offer with an anticipated completion date of late October 2024.
- Completing several lease renewals and lease extensions at Elmsleigh Shopping Centre to protect the income stream and to ensure that the scheme remains fully let.

New Lettings Completed between 1 April and 30 September 2024

Date Completed	Property	Sector	Area sq.ft	Contracted Rent (£) p.a.	Estimated Rental Value (£) p.a.
Apr-24	Part 4th floor, Porter Building*	Office	12,543	451,548	451,548
Aug-24	Elmbrook House, Sunbury	Office	3,062	61,240	55,116
Aug-24	Elmsleigh SC - MSU2 Library	Retail	MSU2	-	-
Apr-24	Porter Building, Slough	Office	9 car parking spaces	13,500	13,500
Jun-24	Porter Building, Slough	Office	10 carparking spaces	15,000	15,000
Sep-24	Charter Building, Uxbridge	Office	1 car space	4,000	4,000
Sep-24	Charter Building, Uxbridge	Office	10 car spaces	10,000	10,000
Total			15,605	555,288	549,164

3 Asset Management Activity - continued

Lease renewals completed between 1 April 2024 & 30 September 2024

Property	No. of lease renewals	Passing Rent (£) p.a	Estimated Rental Value (£) p.a	Rent Achieved (£) p.a.	Uplift of ERV %
Elmsleigh Centre and High Street, Staines	1	40,000	37,000	40,000	8.11%
Summit Centre, Sunbury	1	22,000	22,700	23,000	1.32%
Total	2	62,000	59,700	63,000	9.43%

Rent reviews completed between 1 April 2024 & 30 September 2024

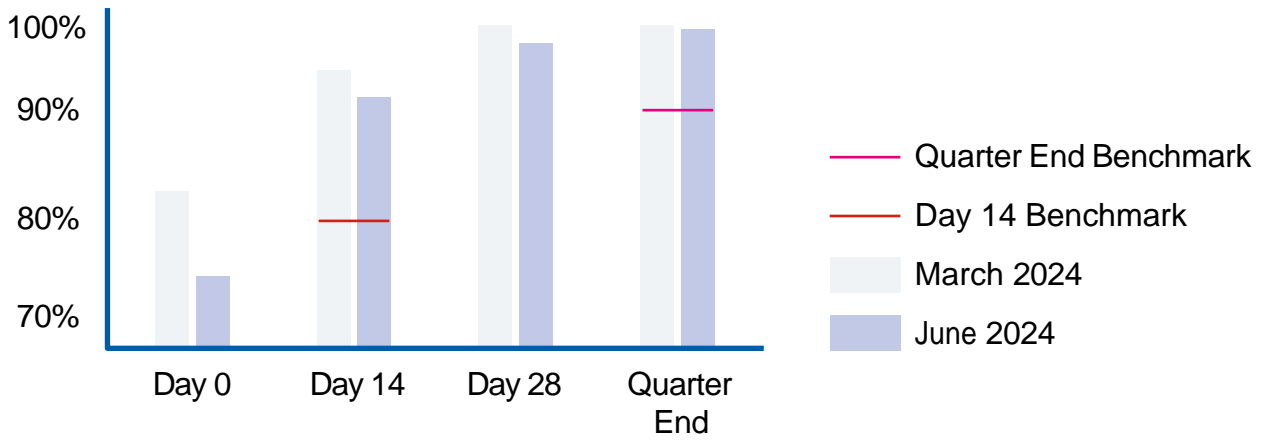
Property	Sector	Rent Review Date	Passing Rent (£) p.a	Rent Achieved (£) p.a.	Uplift %
Ground floor Charter Building, Uxbridge	Office	23/06/2023	£188,410	£226,092	20%
1st floor Charter Buildings, Uxbridge	Office	23/06/2023	£0.00	£130,848	100%
Ground floor Porter Building	Office	23/05/2023	£40,000	£40,000	nil uplift

The Asset Management Team have brought the management of the office building WBC4 at Heathrow Airport in-house. This is a single let property of 89,282 sqft which is relatively straightforward in terms of management, being an FRI lease which has no service charge or on site team. By undertaking the property management and the rent collection on this property there is a £5,000 saving per annum.

A strong focus remains the collection of the quarterly rent. The Council achieved its target of collecting 80% of all rent demanded within 14 days of the due date and 95% of all rent by the quarter end.

3 Asset Management Activity - continued

Rent Collection Statistics - Office Portfolio



4 Review of Portfolio Asset Investment Strategy

In June 2024 Corporate Policy and Resources Committee approved the Portfolio Asset Investment Strategy for the financial year 2024/2025. This summarised the key actions to be undertaken during the financial year with a focus on maintaining and improving the income. These objectives are listed below with an update on progress as at 30th September 2024.

Confidential information – redacted

5 Summary

In the six months to September significant progress has been made to reduce the void rate on the investment portfolio which stands at 10.66% (as a percentage of floor area). Nevertheless, we have pursued all opportunities to maximise income and completed four car parking licences. The focus over the next 6 months will be to complete the lettings under offer, convert the existing interest and let the remaining space.

With occupier demand focusing primarily on the highest quality space we will complete the refurbishment the 13th floor at Thames Tower and the ground floor at the Charter Building. It is also anticipated that the 11th floor at Thames Tower (13,933 sq.ft), currently let to Austin Fraser will require refurbishment when the lease is disclaimed by the Administrator.

After prolonged lease negotiations with Surrey County Council it was rewarding to see the lease for the new Staines Library complete which will be a fantastic new facility for the borough when it opens in Spring 2025.

